

SURREY COUNTY COUNCIL**LOCAL PENSION BOARD****DATE: 17 FEBRUARY 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF 16 DECEMBER 2022****SUMMARY OF ISSUE:**

This report provides the Local Pension Board (the Board) with a summary of the Surrey Pension Fund Committee (the Committee) meeting held since the last meeting of the Board.

RECOMMENDATIONS:

It is recommended that the Board:

Note the content of this report and make recommendations to the Pension Fund Committee if appropriate.

REASON FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Managers in securing compliance with the Local Government Pension Scheme (LGPS) Regulations and requirements imposed by the Pension Regulator. This report provides the Board with insight into the activities of the Surrey pension function and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

DETAILS:**Background**

1. The Committee met on 16 December 2022. This report provides a summary of this meeting and any decisions made.

Board report

2. The Committee received the report from the Board (shown as Annexe 1).
3. The Board report provides a summary of administration and governance issues reviewed by the Board at its last meeting on 11 November 2022 for noting by the Pension Fund Committee.
4. The Chair of the Board presented the report, highlighting specifically:
 - a) performance measures and the improved table setting out the performance detail;
 - b) internal controls as presented in the Risk Register and Heat Map;

- c) continued work with Internal Audit and confirmation of future audits planned
5. The Chair of the Committee firstly praised the improved layout and simplification of the content of the administration performance report. A request was made for an analysis of terminated cases through the system, rather than a calculated number. The Head of Service Delivery confirmed that “Altair Insights” can provide a list of cases that are terminated, and it was agreed to provide a comprehensive list of the terminated cases.
 6. The Assistant Director, LGPS Officer informed the Committee that the Board has approved the appointment of a further employer representative, a Senior Finance Officer from Epsom and Ewell Borough Council. Additionally, the Surrey Pension Team has now appointed a permanent Head of Change Management and a permanent Head of Service Delivery, both take up their appointments in February.
 7. A Member of the Committee drew attention to the outstanding workloads specifically for deferred benefits and LGPS transfers in and asked whether resources would be allocated to clear these backlogs. The Chair of the Board confirmed that the Board discusses workloads, and the Board is working with the administration team on monitoring backlog areas whilst considering “business as usual” is maintained. The Assistant Director, LGPS Officer confirmed that three new members of the team at junior level have been recruited to support Service Delivery and Accounting and Governance.

Investment Manager Performance and Asset / Liabilities Update

8. The Committee was introduced to the report which provided a summary of investment manager issues, as well as an update on investment performance and the values of assets and liabilities.
 - a) The Committee noted the main findings of the report in relation to the Fund’s valuation (£4.9bn) and funding level (116%), performance returns and asset allocation as of 30 September 2022.
 - b) The Head of Investment and Stewardship highlighted that since the 2019 valuation the funding position has been reported using a static discount rate of 4.2%. At the 2022 valuation, this discount rate was revised to 4.4%. The funding position each quarter will now be reported using a dynamic discount rate, as recommended by the Actuary, in order to better reflect changing market conditions.

Border to Coast Pensions Partnership Update

9. The report was presented to the committee with an update of current activity being undertaken by the Border to Coast Pensions Partnerships (BCPP).
10. The Committee:
 - a) It was proposed by the Committee to change the word supported to noted the revised Border to Coast Responsible Investment (RI) Policy 2023, Climate Policy 2023 and Corporate Governance & Voting Guidelines

2023, subject to the continuing work between the Fund and Border to Coast to align our approaches consistent with the Fund's standalone RI Policy, Voting Policy and commensurate with feedback from the Fund, as set out in paragraph 18 of the report.

- b) Approved the proposed changes to the Stakeholder agreement, Articles of Association and Inter Authority Agreement outlined in this report and recommends approval by full Council
- c) Agreed to recommend to full Council that all future decisions in respect of BCPP matters are delegated in the following way
 - i- Inter authority agreement matters (joint committee) – to the Committee.
 - ii- Articles of Association and shareholder agreement matters – to the shareholder representative (the Section 151 officer or their delegate, in consultation with the Chair of the Committee).
- d) Noted the background and progress of BCPP activity, including details of the following: -
 - iii- Schedule of activity since the last Committee meeting of 23 September 2022 until the end of the calendar year.
 - iv- BCPP Joint Committee (JC) meeting on 30 November 2022.

Asset Class Focus – Private Markets

- 11. As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different assets classes each quarter. This quarter the paper concentrated on private markets.
 - a) The Committee noted the Fund's private market holdings and commitments, respective funds' investment performance and review from the Fund's independent investment adviser.

Company Engagement & Voting

- 12. The Head of Investment and Stewardship presented the report highlighting some of the Environmental Social and Governance (ESG) issues undertaken by LAPFF and Robeco through the quarter.

Cash Flow Review

- a) The Head of investment and Stewardship introduced the report, emphasising the importance of understanding the cash flow position to meet the demands for paying out pensions. The Committee noted the Fund's current and projected cash flow position.

- b) The Committee approved an annual review of the cash flow position given the heightened uncertainty related to inflation expectations.
- c) Noted the operational decision to utilise income from our property portfolio managed by CBRE and initiate the income withdrawal plan for the Multi-Asset Credit (MAC) Fund to support the cash flow position.
- d) The Board have been tasked with reviewing the impact of inflation on cash flows and the entry within the Risk Register.

Competition & Market Authority (CMA): Investment Consultant Strategic Objectives

13. Local Government Pension Schemes (LGPS) are required to set strategic objectives for their Investment Consultant (IC) provider and monitor performance against these.
 - a) The Committee noted the Strategic Objectives for Investment Consultants of the Fund as approved in December 2021.
 - b) The Committee noted compliance against these strategic objectives by the IC provider for 2022.
 - c) Approved for the submission of CMA Compliance statement and certificate for 2022.

Responsible Investment Next steps

14. A key priority of the Committee is to approve the Responsible Investment (RI) policy after considering the consultation feedback and, set a net zero date consistent with its fiduciary responsibility of meeting pension liabilities.
 - a) The Committee approved the delegation of the following to the Responsible Investment Sub Committee (RISC) regarding the consultation.
 - i. Review the results of the RI policy consultation in January 2023.
 - ii. Agree any recommendations resulting from the consultation to be put to the PFC in March 2023
15. The Committee approved the delegation of the following to the RISC regarding setting a net zero date
 - i. Agree a brief to be put to an investment consultant for the purpose of making a recommendation regarding a net zero date.
 - I. Receive analysis from the consultant.
 - II. Recommend a net zero date to be brought to Committee for approval at 16 June 2023 meeting.
 - III. To consider the pathway to the net zero date.

- IV. To agree a process for consultation with key stakeholders with regard to net-zero.

16. Approve officers to continue to work with the RISC, investment consultant and independent advisor to facilitate this process.

Department of Levelling up, Housing & Communities Consultation on Governance and Reporting of Climate Change Risk

17. The report provided the Committee details of the Department of Levelling Up, Housing & Communities (DLUHC) consultation on Governance and Reporting of Climate Change Risk and the response from Surrey.

Valuation 2022 – update

18. The Committee received an update from the Head of Accounting & Governance, which provided the progress of the 2022 triennial valuation.
19. The Committee approved the draft Funding Strategy Statement in Annexe 1, subject to employer consultation.

LGPS Update (Background information)

20. The Committee noted the content of this report, which considered recent developments in the LGPS.

Investment Strategy Review

21. The Pension Fund is reviewing its Investment Strategy in accordance with the 2022 valuation, considering investment core beliefs in line with the asset offerings of BCPP. The report provided an analysis on the geographic allocation of equities for review.
- a) The Committee approved the sale of LGIM Emerging Markets Fund such that the exposure to Emerging Market equity is maintained at 10% of the equity exposure when BCPP Emerging Market Fund is launched and purchased, as already approved.
 - b) Approved the reduction in exposure to UK equities through BCPP UK Equity Alpha Fund and the increase in exposure to the LGIM Future World Global Fund.
 - c) Approved for Officers to work with the Independent Investment Advisor, Investment Consultant, BCPP and LGIM, in consultation with the Chair, to carry out the transactions in the most cost and risk efficient way.

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| CONSULTATION: |
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22. The Chairman of the Board has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

23. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

24. Any relevant financial and value for money implications have been considered and are contained within the report.

DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL

25. The Director of Finance, Corporate and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

26. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

27. There are no equality or diversity issues.

OTHER IMPLICATIONS

28. There are no other implications.

WHAT HAPPENS NEXT

29. The following next steps are planned:

- a) Further updates will be provided to the Board at its next meeting on 26 May 2023.

Contact Officer:

Adele Seex – Governance Manager

Consulted:

Local Pension Board Chairman

Annexes: Summary of Board Meeting – Annexe 1

Sources/background papers:
